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TREASURY FOR OASIA/INA-CRANE
USDA FOR FAS/ITP AND FAS/FAA

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SUBJECT: THE HEAT IS ON: GUANGDONG PROVINCE H1 ECONOMIC
REPORT

REF: Guangzhou 18102

11. (U) SUMMARY. This report offers an overview of the economic performance in the first half of 2006 for Guangdong Province. The province continues to be an economic hot spot despite government control measures, murky bookkeeping, and natural disasters. The strong industrial and export sectors fueled a rapidly ascending provincial gross domestic product (GDP). Electronic equipment manufacturers and the real estate sector recorded particularly robust growth. It was apparent that the Provincial Statistics Bureau attempted to paint a rosy picture of the provincial economic situation, but hoped it was not so rosy as to attract criticism for contributing to an overheating economy. END SUMMARY.

Guangdong Fast Facts (U)

GDP, billion USD	142.19	(14.4%)
GDP, percentage of national GDP	12.49%	
FDI, actual use, billion USD	6.83	(21.4%)
Imports, billion USD	101.7	(20.0%)
Exports, billion USD	131.3	(28.3%)
Fixed-asset investment, billion USD	40.24	(20.5%)
Retail sales, billion USD	55.22	(15.6%)
Consumer Price Index	1.7	
Disposable income per capita (urban), USD	1062.50	(9.0%)
Disposable income per capita (rural), USD	361.06	(7.9%)

12. (U) NOTE: Percentages in parenthesis represent growth compared to the same period in 2005 (according to the Guangdong Statistics Bureau). All currency conversions in this report are made at the average exchange rate of USD 1 = RMB 8.0292.

13. (U) Led by a strong export sector, Guangdong maintained a "steadily fast economic development," according to the Guangdong Statistics Bureau. The province's gross domestic product (GDP) reached RMB 1141.68 billion (USD 142.19 billion), an increase of 14.4%. The income of the primary sector was RMB 48.06 billion (USD 5.99 billion), up 3.9%. For its part, the income of the secondary sector grew 16.8% to RMB 602.08 billion (USD 74.99 billion). The tertiary sector posted income of RMB 491.54 billion (USD 61.22 billion), up 12.6%.

¶4. (U) When compared to Provincial Government-reported 2005 numbers, some growth rates are actually much higher than those claimed in this year's H1 report. For example, the H1 GDP for 2006 is USD 142.19 billion, which appears to represent a 32% growth rate over the 2005 H1 GDP of USD 107.71 billion. Even when inflation and exchange rate differences are considered, the 14.4% 2006 H1 GDP growth rate appears to be substantially under-reported, likely in an effort to not have the economy appear to be overheating.

Note on Statistics

¶5. (U) Unless otherwise noted, percentage growth figures are over the same period of 2005. Readers should bear in mind that the majority of statistics provided in this report are from Chinese government sources. As such, they should be taken with the proverbial grain of salt. They are of limited reliability, and are best used in comparison to other time periods. Even then, the statistics may be of limited accuracy, since the methodologies used to calculate the statistics often change without notice. In the past, authorities have been loath to explain any irregularities or changes.

Industrial Engine Firing On All Cylinders

¶6. (U) Industrial production continued to grow at a brisk pace during 2006's first half. The income of industrial enterprises with annual sales revenue of RMB 5 million (USD 623,000) or more (enterprises "above designated size," in

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the parlance of the Statistics Bureau) was RMB 486.78 billion (USD 60.63 billion), up 18.5%. Meanwhile, Guangdong's "nine major industries" (electronic equipment, household appliances, petroleum refining, textile garments, food and beverage, logging and papermaking, medicine, and automobile manufacturing) grew even faster, posting income of RMB 352.99 billion (USD 43.96 billion), up 22.1%. Electronic equipment manufacturers recorded particularly robust growth of 31.7%.

Fixed-Asset Investment

¶7. (U) Fixed-asset investment rose by 20.5% to RMB 323.09 billion (USD 40.24 billion). Investment in real estate registered a remarkable upturn, growing by 23.3% to RMB 75.78 billion (USD 9.44 billion).

Real Estate

¶8. (U) According to the Guangdong Statistics Bureau, the "weighted average price" (different from "average price" which was used by the Bureau last year) for commercial housing for the first 6 months of 2006 in Guangdong is RMB 5160 per square meter (roughly USD 643), up a fiery 38% compared with RMB 3735.5 (USD 465) per square meter for the same period of last year. Sales of commercial building space were also brisk. While the total floor space sold only increased 14.5% to 21.99 million square meters, the sales value increased 25.1% to RMB 109.61 billion (USD 13.65 billion). The central and provincial governments have taken steps to cool down the property markets, though many regional analysts do not expect these measures to be very successful (reftel).

Retail Sales

¶9. (U) The volume of retail sales continued to climb. Retail sales of consumer goods reached RMB 443.39 billion

(USD 55.22 billion), up 15.6%. The consumer price index (CPI) rose by 1.7%. The food price index rose 1.3%, the transportation and communication index rose only 0.3%, clothing rose 1.8%, and the residence index rose by 5.3%.

Income

¶10. (U) Urban and rural incomes both rose in Guangdong during the first half of 2006, but the disparity between the two widened slightly. The average per capita income in urban areas reached RMB 8531 (USD 1062.50), up 9.0%. For their part, rural areas saw their income rise to RMB 2899 (USD 361.06), up only 7.9%.

Foreign Trade

¶11. (U) Guangdong's foreign trade saw rapid growth. The volume of foreign trade grew 24.5% to USD 232.9 billion. Of that total, exports accounted for USD 131.3 billion, up 28.3%, helping feed a trade surplus of USD 29.5 billion, according to the Guangdong Statistics Bureau. Exports constituted 56.4% of total foreign trade in the province, up from 54.7% during the same period in 2005. Imports, which stood at USD 101.7 billion, grew 20.0%. Mechanical and electrical product exports reached USD 89.22 billion, a rise of 28.2%. High-tech products netted USD 44.35 billion, a rise of 28.5%.

Foreign Direct Investment

¶12. (U) The contracted value of Guangdong's foreign direct investment (FDI) totaled USD 11.48 billion, representing growth of 13.5%. The actual use of FDI reached USD 6.83 billion, up 21.4%.

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Problems Identified by the Guangdong Government: Oil Prices, Typhoons, and Foreign Pressure

¶13. (U) The statistical report identified five main problems affecting the province's economic performance-- high crude oil prices on the international market, growing costs in means of production shrinking company profits, agricultural losses from Typhoons Bilis and Zhenzhu as well as "inadequate input in agricultural production," rising real estate prices, and "growing conflicts in foreign trade" putting pressure on the province's high export growth.

Q and A Session: Turning Up the Heat

¶14. (U) During the question and answer session following the presentation, several newspaper and television media representatives repeatedly asked the Director General of the Guangdong Bureau of Statistics, Mr. Pu Xin Min, concerning the overheating provincial economy. On no less than four occasions during the press conference, Pu stated unequivocally (and at times, testily) that "there is no overheating," citing a low consumer price index as evidence of "reasonable" growth. Pu explained that the government's control measures would take time to become apparent in the statistics, and that the growth in the real estate sector is actually a "recovery growth rate." Two of the control measures Pu mentioned were 1) increasing interest rates, and 2) policy changes in export tax returns.

¶15. (U) Pu characterized the province's economy as being in the mid- to final stage of industrialization and in the beginning stage of "scientific development"-- a euphemistic term used by government officials to describe sustainable development and a comprehensive development of the whole

society.

¶16. (U) The Director General also stated that Guangdong Province's unemployment rate is 2.6%. This figure is vastly underestimated. Provincial statistics almost certainly do not take into account the migrant population from poorer provinces.

COMMENT: Unstoppable Juggernaut For Now?

¶17. (U) It was apparent that the Statistics Bureau attempted to paint a rosy picture of the provincial economic situation, but not so rosy as to attract criticism for contributing to an overheating economy. The statistical discrepancies will likely prevent the Bureau from succeeding in their attempt. Guangdong Province continues to be an economic hot spot despite government control measures, murky bookkeeping, and natural disasters. Guangdong economic officials repeatedly tell Congenoffs that a growth rate above 9 percent is too rapid for healthy growth, yet the economy has only surged ahead. With concerns about the property market, land compensation, rural/urban income gaps, and fuel and electricity shortages, we will continue to monitor for these and other signs of stress as the economy continues its rapid growth.

MARTIN